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Increase in Producer Prices Feeds Fear of Rising Inflation

By Michael Grynbaum
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Businesses paid more for gasoline, automobiles and most products last month, reinforcing fears that inflation is rising.

While prices for grain and gasoline have skyrocketed in recent months, the pressures had not appeared to seep into the broader economy. But the core measure of the Producer Price Index, which excludes volatile energy and food products, jumped 0.5 percent in February, the Labor Department said on Tuesday. It was the biggest gain since November 2006.

Over all, prices paid by producers rose 0.3 percent, slowing slightly from a 1 percent gain in January. Food prices fell 0.5 percent. But with stark rises in costs for prescription drugs, motor vehicles and capital equipment, inflation clearly remains a threat, even as the economy slows.

The report disappointed economists who had been cheered by a flat Consumer Price Index report last week. “We believe the producer-price data probably is more indicative of reality given the strong advance in commodity prices and the sinking U.S. dollar,” Michael T. Darda, chief economist at MKM Partners, a hedge fund and trading firm in Greenwich, Conn., wrote in a note to clients.

Meanwhile, home construction fell again last month as builders scrambled to lower their inventories. Permits for new residential projects slumped 7.8 percent, to an annual rate of 978,000, seasonally adjusted, the slowest pace since the housing recession of the early 1990s.

The decline in permits “is a crystal clear indicator that demand for new housing is quite weak and can be expected to remain so, for the foreseeable future,” Joseph Brusuelas, chief United States economist at IdeaGlobal, wrote in a research note.

Groundbreakings for new homes fell to a 1.06 million annual rate, though the Commerce Department revised its January estimate up to 1.07 million. Apartment and condominium construction rose but starts of single-family homes dipped again.

Home buyers have become scarcer and the values of houses have dropped as the housing market suffers through its worst slump in a generation. Economists say many buyers are standing on the sidelines, waiting for prices to fall even further, delaying the market’s recovery until the summer

at the earliest. “There are still signs that house construction has room to fall further in the months ahead,” Stuart G. Hoffman, chief economist at PNC Bank, wrote in a research note.

Groundbreakings fell the most in the Northeast, with a 27.7 percent decline in housing starts. They stayed flat in the Midwest and rose slightly in the South and the West.